

IN THE

United States Circuit Court of Appeals

For the Ninth Circuit

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CLAUDE REES, CHARLES F. HINE, REES BLOW
PIPE MANUFACTURING COMPANY, INC. (a
corporation), and PROGRESSIVE EVAPORATOR
COMPANY, INC. (a corporation),
Defendants-Appellants,

vs.

NORMAN LOMBARD, MONTGOMERY FLYNN, WIL-
LIAM T. ECKHOFF, NORMAN LOMBARD and
ELLEN LOMBARD, Trustees for Ellen Lom-
bard, Elizabeth Lombard and Norman
Lombard, Junior,
Plaintiffs-Appellees.

SUPPLEMENTAL BRIEF FOR PLAINTIFFS-APPELLEES.

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During argument the court asked about certain propositions not touched upon by counsel for defendants in their opening brief and therefore only incidentally referred to by us in our points and authorities. For this reason and in order to cite authorities in support of these propositions we asked leave to file this supplemental brief.

As this action is one on behalf of a corporation, an exclusive licensee of a patented device, to restrain the violation of that license by the patentees who are the licensors, has the federal court jurisdiction? Is this not a suit for the violation of a license agreement and not for the infringement of a patent? This was one of the propositions referred to by the court on the argument.

The general rule is that the licensee cannot sue for infringement and that he has no standing in the federal court in an infringement suit.

Gayler v. Wilder, 10 How. 477;

Paper Bag Mach. cases, 105 U. S. 767;

Birdsell v. Shaliol, 112 U. S. 485.

There is an exception to the foregoing rule. The case at bar comes within this exception. The exception is the case where the patentees and licensors are themselves the infringers of a patent and then the federal court has jurisdiction of an action for such infringement brought by the licensee or by a stockholder on behalf of the licensee as in this case. Counsel realized this rule so he did not attack the federal court's jurisdiction on this ground.

The case of *Littlefield v. Perry*, 21 Wall. 221, is the leading case in support of this exception. There the defendants attack the jurisdiction of the federal court on the ground that the Act of Congress giving the federal courts exclusive jurisdiction of actions involv-

ing patents did not give the licensee the right to sue the patentee in the federal court for violation of the license agreement and the consequent infringement of the patent. It was claimed that this was merely an action on a contract and that the federal court had no jurisdiction. In answer to this contention the court said (pp. 222, 223) :

“But even if they are not technically assignees, we think this action is, nevertheless, maintainable. They certainly had the exclusive right to the use of the patent for certain purposes within their territory. They thus held a right under the patent. The claim is that this right has been infringed. To determine the suit, therefore, it is necessary to inquire whether there has been an infringement, and that involves a construction of the patents. The act of Congress provides ‘that all actions, suits, controversies, and cases arising under any law of the United States granting or confirming to inventors the exclusive right to their inventions or discoveries shall be originally cognizable, as well in equity as at law, in the Circuit Courts’, etc. An action which raises a question of infringement is an action arising ‘under the law’, and one who has the right to sue for the infringement may sue in the Circuit Court. *Such a suit may involve the construction of a contract as well as the patent, but that will not oust the court of its jurisdiction. If the patent is involved it carries with it the whole case.*

A mere licensee cannot sue strangers who infringe. In such case redress is obtained through or in the name of the patentee or his assignee. Here, however, the patentee is the infringer, and as he cannot sue himself, the licensee is powerless, so far as the courts of the United States are concerned, unless he can sue in his own name. A court of equity looks to substance rather than form. When it has jurisdiction of parties it grants

they come as plaintiff or defendant. In this case the person who should have protected the plaintiff against all infringements has become himself the infringer. He held legal title to his patent in trust for his licensees. He has been faithless to his trust, and courts of equity are always open for the redress of such a wrong. This wrong is an infringement. Its redress involves a suit, therefore, arising under the patent laws, and of that suit the Circuit Court has jurisdiction." (Italics ours.)

It is interesting to note that in the *Littlefield* action the patentees endeavored, as the defendants have in the present case, to excuse their infringement and violation of the license agreement on the ground that the licensee had forfeited its license by failure to comply with its terms. The court in answer to this claim applied the same equitable principle which Judge Bourquin applied in his decision in this case and which we are invoking, as a complete answer to the defendants' claim that the corporation had forfeited its license. This principle is: that before defendants could declare a forfeiture of the license they were required to give the corporation a reasonable notice of default and an opportunity to comply with the contract, (assuming there had not been such compliance) which they never did (see p. 42 of plaintiffs' brief). In this respect the court, in *Littlefield v. Perry*, said (p. 227):

“There is no proof that the royalty on the stoves made and sold before the action was commenced was sufficient to discharge that part of the debt due from Littlefield to Treadwell & Perry, which was first to be paid out of it before any-

thing was payable to him, and there could be no forfeiture for a neglect to make and sell, until after reasonable notice of the default. No such notice is proven or even claimed." (Italics ours.)

The rule of *Littlefield v. Perry*, that a licensee may sue in the federal court where the patentee and licensor is the infringer is followed in many cases.

See: *Waterman v. MacKenzie*, 138 U. S. 252, see p. 255, where it is said:

"In equity, as at law, when the transfer amounts to a license only, the title remains in the owner of the patent; and suit must be brought in his name, and never in the name of the licensee alone unless that is necessary to prevent an absolute failure of justice, *as where the patentee is the infringer, and cannot sue himself.*" (Italics ours.)

See: *Rapp v. Kelling*, 41 Fed. 792, where it is said:

"Even if the instrument did not vest the complainant with the legal title of the patent, it enables him to maintain a suit in his own name against the patentee for an infringement. *Littlefield v. Perry*, 21 Wall. 205; *Gayler v. Wilder*, 10 How. 477. The bill is in the ordinary form of one brought by the owner of a patent against an infringer for an injunction and an accounting. The case which it makes differs from ordinary actions for infringement only in the fact that the defendant is the person to whom the patent was originally granted. The bill, therefore, presents a controversy of which this court has jurisdiction, and, *even though one issue which may be raised in the case is whether the grant is still in force, that circumstance does not prevent the controversy from being one arising under the laws of the United States.* But although the complainant may have failed to comply with some of the terms of

was acquired, his failure to perform them *does not work a forfeiture of the grant, and the only remedy of the defendant is an action for damages for breach of contract.*" (Italics ours.)

(Here again we note the court's refusal to allow a forfeiture of a license agreement on some technical pretense of non-performance.)

See also:

Brush Electric Co. v. Cal. Electric Co., 52 Fed. 945;

Excelsior Wooden Pipe Co. v. Pac. Bridge Co., 22 Supreme Court Rep. 681.

The last mentioned case is very much in point. The situation there involved was practically the same as that here as far as the infringement of the patent was concerned. That was an action by a licensee against his patentee for infringement of the patent. The licensee held an exclusive license and claimed that the patentee was manufacturing and selling wooden pipe embodying the patented device and invention. The action was brought to recover damages for infringement and for an injunction. Practically the same defense was made there as was made here in the lower court. It was denied that the license was a subsisting one. It was claimed that the rights thereunder had been forfeited and consequently cancelled by the patentees of the license.

It was claimed that the federal court had no jurisdiction because there was no question of a patent right involved as the answer merely raised the issue

of the validity of the license. The lower court held that the action was not one arising under the patent laws but solely on a contract. The upper court reversed this decision and held that the title of the licensee in the patent was involved as the validity of the license was called into question. The court held there that the United States court had jurisdiction of the cause and that its jurisdiction was exclusive. The court then said (pp. 683, 684):

“The answer raises no issue as to the validity of the patent, or as to the acts charged as infringement. *It admits the license, but denies that it is a subsisting one, and pleads abandonment of the same by plaintiff, a forfeiture of all rights thereunder by failure to comply with its terms and conditions, and by acts of gross bad faith towards the patentee by seeking to defeat the patent, and a revocation of the license by Allen.* It will be observed that the answer raises no question of the construction of the license, but merely of its existence,—that is, of the title of the plaintiff to sue. Before deciding that these allegations oust the jurisdiction of the court it must at least appear that the plaintiff has another remedy by an action in a state court. But what remedy has it? * * * There were practically but two ways in which the patentee could impair the grant he made to the licensee, and those were by a revocation of the license by a bill in equity, *or by treating it as abandoned and revoked, and granting a license to another party.* He elected the latter remedy, and made a contract with the Pacific Bridge Company to make and sell wooden pipe within the same territory. *A suit in a state court would either be inadequate or would involve questions under the patent law.* If the licensee sued at law he would be obliged to establish the fact that the patent had been infringed, which the patentee might have denied and in any case could

sued in equity he could only pray an injunction against future infringements; but this is exactly what he prays in this case, and thereby raises a question under the patent laws. In either case the patentee could defeat the action by showing that he did not infringe,—in either case the defendant could so frame his answer as to put in issue the title, the validity, or the infringement of the patent.

The natural and practically the only remedy, as it seems to us, was for the plaintiff to assert his title under the license, and to prosecute the defendants as infringers. In doing this he does what every plaintiff is bound to do: namely, set forth his title either as patentee, assignee, or licensee, and thereby puts that title in issue. The defendant is at liberty in such a case to deny the title of the plaintiff by declaring that the license no longer exists, but in our opinion this does not make it a suit upon the license or contract, but it still remains a suit for the infringement of a patent, the only question being as to the validity of plaintiff's title. There can be no doubt whatever that if the plaintiff sued some third person for an infringement of his patent, the defendant might attack the validity of his license in the same way, but it would not oust the jurisdiction of the court. Why should it do so in this case?" (*Italics ours.*)

This case is also conclusive on another proposition suggested at the argument, to wit, whether or not the fact that other questions were involved in this action besides the infringement of a patent ousts the court of its jurisdiction. This case also held that the federal court was not deprived of its jurisdiction because the action might involve other matters besides the in-

fringement of a patent. On this point we will, a little later on, quote further from this case.

Accordingly we see that as the license involved here included the right to use a patented device and as the complaint charged that the defendants, the patentees and licensors were infringing this patent, this case falls squarely within the rule of *Littlefield v. Perry*, supra, and the other cases above cited and the federal court has jurisdiction of this action.

AS THE FEDERAL COURT OF EQUITY HAD JURISDICTION OF THE ACTION BECAUSE IT INVOLVED THE INFRINGEMENT OF A PATENT IT HAD JURISDICTION TO GRANT COMPLETE RELIEF TO THE PLAINTIFFS INCLUDING THE RESTRAINT OF THE VIOLATION OF THE LICENSE AGREEMENT IN ALL RESPECTS.

It cannot be claimed in view of the decisions that the fact that the plaintiffs in addition to seeking relief from the infringement of the patent also ask relief against the violation of the license agreement in other respects ousts this court of its jurisdiction. The decisions hold that the court is not deprived of its jurisdiction by reason of the existence of other questions beside the question of the infringement of the patent.

See: *Excelsior Wooden Pipe Company v. Pacific Bridge Co.*, supra. There the court in addition to that which has already been quoted goes on to say:

“We held in *Pratt v. Paris Gaslight & Coke Co.*, 168 U. S. 255, 42 L. ed. 458, 18 Sup. Ct. Rep. 62, with respect to an action in a state court, which involved the question whether the patents were

that this did not necessarily oust the state court of its jurisdiction; and by parity of reasoning we hold in this case that the mere fact *that the suit may involve the existence of the license does not oust the court of jurisdiction of a suit for the infringement of a patent.*" (Italics ours.)

It is interesting to note that the Supreme Court, in this opinion, in the part quoted on page ~~7~~—hereof, holds that if the licensee cannot come into this court and ask for a remedy against infringement and also against the violation of his license agreement he is without an adequate remedy. In other words it is only in the federal court that the licensee has an adequate remedy to protect himself not only against the violation of his license agreement but to give him complete relief against infringement.

On the same point, see *Henry v. A. B. Dick & Co.*, 32 Supreme Court Rep. 364, 367. This case was later overruled but not on the point respecting jurisdiction. There the court in quoting *Littlefield v. Perry*, supra, said:

"An action which raises a question of infringement is an action arising 'under the law'; and one who has the right to sue for the infringement may sue in the circuit court. Such a suit may involve the construction of a contract as well as the patent, but that will not oust the court of its jurisdiction. If the patent is involved, it carries with it the whole case." (Italics ours.)

It is to be noted that the court says that "if the patent is involved (*as it is in the case at bar*), it carried with it the whole case" and gives the federal

court the right to afford the aggrieved party complete relief. As long as the question of an infringement is raised by the complaint the action is one arising under the patent law.

See: *Healy v. Sea Gull Specialty Company*, 35 Supreme Court Rep. 658. Here again the plaintiff was the licensee and the defendant the patentee and licensor. The defense was the same as the one interposed in this case that the license had been terminated by a breach of its conditions. The bill prayed for an injunction and for damages for an infringement. The lower court thinking the matter merely involved a contract dismissed the bill for lack of jurisdiction. The Supreme Court said:

“The bill prays for an injunction against making, using, or selling the boxes or machines, for an account of profits received by reason of the infringement, for triple the damages measured as above stated, and for the surrender of the machines. The jurisdiction depended upon this being a case arising under the patent laws, and the district court, thinking that it was merely a matter of contract, dismissed the bill. In our opinion its decision was wrong. * * * *The plaintiff is absolute master of what jurisdiction he will appeal to; and if he goes to the district court for infringement of a patent, unless the claim is frivolous or a pretense, the district court will have jurisdiction on that ground, even though the course of the subsequent pleadings reveals other more serious disputes.* *Excelsior Wooden Pipe Co. v. Pacific Bridge Co.*, 185 U. S. 282, 46 L. Ed. 910, 22 Sup. Ct. Rep. 681. Jurisdiction generally depends upon the case made and relief demanded by the plaintiff; and as it cannot be helped, so it cannot be defeated by the replication to an actual or anticipated defense contained in what used to

be the charging part of the bill. For the same reason it does not matter whether the validity of the patent is admitted or denied.

As appears from the statement of it, the plaintiff's case arose under the patent law. It was not affected by the fact that the plaintiffs relied upon a contract as fixing the mode of estimating damages, or that they sought a return of patented machines to which, if there was no license, they were entitled. These were incidents. The essential features were the allegation of an infringement and prayers for an injunction, an account of profits, and triple damages,—the characteristic forms of relief granted by the patent law. The damages were grounded on the infringement, and the contract was relied upon only as furnishing the mode in which they should be ascertained.” (Italics ours.)

See, also, *Lockett v. Delpark*, 46 Supreme Court Rep. 397. The last mentioned case contains a comprehensive summary of the jurisdiction of the federal court in infringement suits and there it is said (400):

“It was held that the patentee might waive the contract and sue on the tort of infringement, that jurisdiction must depend on the remedy it chose and sought in its bill, and that, as the patentee had neither sued on the broken contract of license nor asked to have it forfeited by the court, *the jurisdiction under the patent laws was not ousted.* * * * The result of these cases is that a federal district court is held to have jurisdiction of a suit by a patentee for an injunction against infringement and for profits and damages, even though in anticipation of a defense of a license or authority to use the patent, the complainant includes in his bill averments intended to defeat such a defense. If these averments do not defeat such defense, the patentee will lose his case on

the merits, but the court's jurisdiction under the patent laws is not ousted." (Italics ours.)

Thus it will be seen that the fact that the bill of complaint asked for an injunction restraining the violation of the license agreement in other respects besides the infringement of the patent did not oust the court of jurisdiction and the court made no error in restraining all other violations, by the defendants or the license agreement, as well as the infringement of the patent.

As the federal court had jurisdiction to prevent the infringement of the patent by the defendants it could also enjoin the violation of the license agreement in all other respects by the defendants. It could prevent them from granting a similar license agreement to Neal and Ward or to anyone else and from carrying out or attempting to carry out such similar license agreement. It could restrain the use of an invention by the licensor covered by the license agreement upon which the patent had been applied for but not yet issued. It could in other words grant a complete relief once it had acquired jurisdiction. This is the general rule and is well stated in 21 *Corpus Juris*, p. 134, where it is said:

"G. Retention of Jurisdiction to Afford Complete Relief. 1. General Rule. It is a well settled rule that a court of equity which has obtained jurisdiction of a controversy on any ground, or for any purpose, will retain such jurisdiction for the purpose of administering complete relief."

See, also, *McGowan v. Parish*, 35 Sup. Ct. Rep. 543, p. 548, where it is said:

completely, and not by halves'; and a cause once properly in a court of equity for any purpose will ordinarily be retained for all purposes, even though the court is thereby called upon to determine legal rights that otherwise would not be within the range of its authority." (Italics ours.)

See also:

Camp v. Boyd, 33 Sup. Ct. Rep. 785, see p. 793.

Opposing counsel claimed in his opening brief that the court in this action had no right to restrain the defendants as licensors from infringing an invention upon which an application for a patent had been filed, but which patent had not yet issued. In answer to this proposition we pointed out on pages 32 to 35 of our brief that the defendants had given an exclusive privilege and contract to use this invention and that they could not violate that exclusive privilege and contract irrespective of whether a patent had issued or not and if they attempted to violate it they could be restrained by a court of equity irrespective of the patent question on the ground that they were violating an exclusive privilege given by themselves. At the argument counsel attempted to meet this conclusive answer by the claim that it was not shown what invention the application for a patent embraced. This would make no difference. The defendants by their answer (R. 78) admit that after attempting to cancel the license of the corporation they granted a similar license to Neal and Ward. The allegation in their answer is as follows:

"Said Rees and Hine entered into a license agreement with said Neal and Ward similar to

The license agreement executed and delivered by them to said Progressive Evaporator Company, Inc., which latter agreement is referred to in plaintiffs' bill of complaint."

It was admitted by them at the trial that not only had they granted this license to Neal and Ward but Neal and Ward at the time of the commencement of this action were actually operating under this license agreement which means that they as the new licensees of the defendants Rees and Hine and in privity with Rees and Hine were violating the license agreement held by the corporation in all particulars. In other words we have an agreement to violate and the actual admission of the continued performance of that agreement to violate. The court is justified therefore in restraining such violations and restraining all acts constituting such violations irrespective of whether or not it was shown what invention the particular application for a patent described in the license agreement embraced.

It was shown at the trial that not only had defendants entered into a license agreement with Neal and Ward which required them to violate the license agreement given the corporation but also the Rees Blow Pipe Mfg. Co., under their control entered into a manufacturing agreement with Neal and Ward which required it to violate the license agreement. It was made plain to the court that these agreements had been made, the carrying out of which would have required the defendants to violate in all respects the license held by the corporation. It was shown without conflict that the defendants were en-

gaged in carrying out these agreements. The court of necessity is therefore required to enjoin this complete violation of the license held by the corporation and it was therefore unnecessary to show the nature of the inventions embraced within the applications for patents to entitle the plaintiffs to such an injunction. The defendants admitted agreeing to violate the license in all respects and so doing and the court could enjoin them from continuing to do so without any proof as to the nature of the inventions covered by the applications for patents. Such proof under the circumstances would have been an idle and useless thing and would have served merely to encumber the record. Once it was called to the attention of the court that the defendants were violating the license agreement which they had given the corporation it could restrain them from doing so in any respect without a specific and detailed inquiry into the mode and operation of the device manufactured. The decree merely restrains them from violating the license and the inventions described in the applications for patents referred to in the license agreement. *If they were infringing these inventions, as their agreement required them to do, it was the duty of the equity court to restrain them. If they were not infringing these inventions they are not harmed by the injunction of the court, which merely restrained them from such infringement.*

As we pointed out in our opening brief, pages 8-10 and 32-35 thereof, the corporation was entitled to protection against the violation of its license by the defendants who were its licensors and at the same

time its officers and directors irrespective of whether or not there was an infringement of patent involved. The fact that there was an infringement of patent involved, as we see from the foregoing cases, made it necessary that the action be brought in the federal court. The fact that there were other respects in which the license agreement was violated besides the infringement of a patent did not oust the court of jurisdiction. On the contrary as it had jurisdiction by reason of the fact that an infringement of the patent was involved it could grant complete relief to the aggrieved party as far as every violation of the license agreement was concerned.

**PAYMENT OF ROYALTIES BY NEAL AND WARD TO REES
AND HINE WERE FOR MANUFACTURE AND SALE OF
THE PATENTED DEVICE.**

Counsel's main point urged in his brief was that there was no proof of infringement of the patented device. In our brief we show that the defendants had given to Neal and Ward a license agreement to manufacture and sell this patented device describing *it by its application for patent number*, that they had made a manufacturing agreement with Neal and Ward to manufacture the patented device described in the license agreement, again referring to it by its patent number, that Neal and Ward during the year 1923 had sold 50 of these devices, described in the said license and manufacturing agreements, and in addition to all this, *that Neal and Ward paid to Rees and Hine royalties during the year 1923 for the manu-*

fact and sale of the device described in the license agreement and manufacturing agreement and designated "evaporators". *The book in which the payment of these royalties was entered was exhibited to this court at the argument. The payment of royalties is conclusive proof of the making and selling of the patented device.* Counsel in his closing argument in an attempt to escape from the effect of the payment of these royalties claimed that it did not appear whether these royalties were paid for the manufacture and sale of the patented device or of the devices covered by the application for patents which had not yet been issued which are also described in the license agreement.

The absurdity of this argument may be seen by an examination of the license agreement in connection with the letters patent. The license agreement (R. 95), given the corporation refers to three applications for letters patent of the United States, to wit:

Application Serial No. 351,538, filed January 15, 1920 for Drying Apparatus;

Application Serial No. 429,298, filed December 9, 1920 for System for Drying Substances;

Application Serial No. 408,703, filed September 7, 1920, for Radiator for Drying Apparatus.

Application Serial No. 351,538 was granted on April 18, 1922 and Letters Patent No. 1,413,135 were issued. (These Letters Patent and the device covered thereby are set forth in full from pp. 28-35 of the Record, copy thereof was attached to the complaint and was admitted by the answer.) The other two applications were not granted at the date of the commencement of

the action. The license and manufacturing agreements given Neal and Ward were similar to those held by the corporation (R. 317-318, see quotation therefrom p. 23 of our brief). By examining the license agreement of the corporation we can determine what this royalty embraced which was paid by Neal and Ward. The license agreement of the corporation provides as follows (R. 108):

"a. On each and every such *evaporator equipment*, made by the Rees Blow Pipe Manufacturing Company, Inc., for the Third Party and sold by such Third Party, \$55.00 for each and every truck capacity thereof and proportionately for any fraction of a truck capacity thereof."

Accordingly the royalty paid by Neal and Ward under a similar license agreement was for the truck capacity of evaporator equipment manufactured by the Rees Blow Pipe Mfg. Co., for Neal and Ward. Now the license agreement provides of what this truck capacity shall consist, paragraph 8, Record 107 says:

"For the purposes of this agreement, the capacity of one truck is understood and deemed to be forty-four 3'x6' or 3'x8' standard field trays or their equal in capacity."

Now the specifications for Letters Patent (R. 32-35 inclusive), say in part:

"My invention relates to devices for drying fruit and other products.

An object of the invention is to provide a dryer giving a dried product of even moisture content.

Another object of the invention is to provide a drier in which a continuous succession of fruit or other material may be economically dried."

which a succession of *trucks* loaded with *trays* shall pass. For instance they say:

“*Figure 4 is a plan view of the truck on which the trays are piled in two tiers. Figure 5 is a side elevation of the truck loaded with trays.*”

They then describe the method by which the trucks and trays are fitted into and pass through the drying chamber. *Constantly throughout the specifications they refer to these trucks and trays as an integral part of the device.* For instance in the twelfth and last claim the specifications read in part as follows (R. p. 35):

“Means for controlling the leakage of air currents between the successive tiers *and below the trucks*, and means for causing a gradual progression of the mass of air in said air currents longitudinally through through said drying chamber and *the succession of tiers of trays therein.*”

The drying apparatus covered by the Letters Patent is an evaporator designed to receive *trucks* loaded with *trays*. Its capacity depends on the *trucks* it will hold. Its volume and size is measured by its *truck capacity*. A small evaporator has a four truck capacity, a larger one seven or ten. Now the royalty paid by Neal and Ward was \$55.00 a *truck* capacity of an evaporator. *The amount of the royalty was measured by the very same standard, to wit, a TRUCK by which the volume and size of the patented device, to wit, an evaporator was measured.* The inference that the royalty applied to the patented device is irresistible. It is the only inference that can be drawn.

To say that the royalty paid by Neal and Ward was not paid on the patented device is absurd and is ignoring the dictates of common sense. There is no showing that this royalty paid by them was for anything else but for the manufacture and sale of the patented device *by the standard of size of which the amount of the royalty is measured. The evidence is absolute, uncontradicted and complete that Neal and Ward at the time of the commencement of this action were manufacturing and selling the patented device and were paying royalties to Rees and Hine for the privilege of so doing and this conclusively establishes infringement even if it was not admitted by the pleading and conceded at the trial.*

**DEFENDANTS CONCEDED INFRINGEMENT AT THE TRIAL
OF THE ACTION.**

In our brief, pages 15 to 21, and at the argument we showed that the case was tried on the theory that the defendants were making and selling the patented device but that they had an absolute right to do so because the corporation had no existing license having lost it by cancellation. This was the theory of the defense. This is why they admitted in their pleadings (R. 78), that they had given another license to Neal and Ward. This was the defense made in the cases of

Littlefield v. Perry, supra;

Rapp v. Kelling, 41 Fed. 792;

Henry v. Dick & Co., 32 Sup. Ct. Rep. 364;

Excelsior Wooden Pipe Co. v. Pacific Bridge Co., supra.

In each of these cases the defendants took the position that the plaintiff's claim no longer existed and therefore they committed no infringement by manufacturing and selling the patented device. As the court said in the last mentioned case:

“In short THE ONLY DEFENSE WAS *a denial of the license which lies at the basis of the plaintiff's suit and constitutes its title to the patent.*”

This language could be applied without change to the case at bar and to the theory upon which it was tried. Now in answer to our position in this respect counsel makes the astonishing assertion that defendants were not required *by the slightest intimation* to make it known to the trial court at the trial of the case that they considered one of the issues to be tried was whether or not there had been a manufacture and sale of the patented device. They say that as plaintiffs' counsel in his opening statement said nothing about showing a manufacture and sale, defendants' counsel in his statement was not required to mention it. In view of what occurred at the trial this is indeed an astounding claim. If counsel is right then a litigant may mislead a court and the opposing parties by his acts and statements at the trial and then if he loses take advantage of his deception on appeal.

Counsel for defendants at the trial was not asked what his answer was to plaintiffs' opening statement. He was asked *what the issue was that was going to be tried*. Mr. Barry (counsel for defendants), Record 120, said:

“Mr. BARRY (counsel for defendant): Does your honor wish any statement from the defense?”

THE COURT. *You can make it if you want to. I think perhaps you had better. We want to know what the issue is that we have to try here.*”

It was incumbent upon counsel for defendants to speak then. If he claimed they were not manufacturing and selling he should have then said so. He did not. On the contrary he said there was only one issue and that was the validity of the license. His concluding statement is (R. 124):

“*So that the real issue in controversy here is, first, were the royalties paid, and, second, were the royalties paid at the time that the notice of cancellation was given?*”

He never claimed by the slightest motion that there was no manufacture or sale. This was conceded. It had occurred. It was not in issue. To attempt now to put it in issue is the vainest sort of trifling. To say, that when a court asks a defendant litigant *what the issues in controversy are and he states that there is only one issue in controversy and proceeds to try and argue the case on that theory*, that on appeal he may say that there was another point on which he took issue but it *was not incumbent upon him to say so is little short of ridiculous.*

This case was exhaustively briefed by both sides after the trial in the lower court (R. 400). Every point upon which defendants relied was fully stated in these briefs. These briefs are on file and reference is made to them. Not only during the trial was no claim made that there was any issue as to manufacture and sale *but there was not a syllable in the comprehensive briefs of defendants which intimated*

the subject.

PLEADINGS ADMIT MANUFACTURE AND SALE OF THE
PATENTED DEVICE.

In our opening brief, pages 11 to 15, we show that the pleadings admit the *manufacture and sale* of the patented device by defendant, but deny that such manufacture and sale is in *violation of the corporation's rights*. Nowhere in the answer is the manufacture and sale absolutely and unequivocally denied. Therefore plaintiffs were not required to prove it.

See, *Jordon v. Wallace*, 13 Fed. cases 1104, quoted on page 14 of brief. But not only does the answer not deny the manufacture and sale but it practically alleges it. It alleges that a similar license to the one held by the corporation had been given Neal and Ward. This allegation is tantamount to alleging manufacture and sale *but what is more it shows that there was never any intention on the part of defendants to deny the manufacture and sale and it shows that the whole theory of their defense was a denial of the validity of the corporation's license.*

Counsel on the argument claimed that the denial in the answer (R. 79), that

“Rees, Hine and Neal had *violated said rights secured by the patents or the interests of the corporation to said patents created by said license agreement,*”

is a denial of the manufacture and sale of the patented devices. This denial is nothing *but the denial of a conclusion of law*. It is not a denial of the fact of

manufacture and sale. It is perfectly *consistent* with the theory of the defense that they were making and selling the patented device but this was not in violation of any rights of the corporation because it had forfeited such rights. So defendants can take cold comfort from this denial. *The fact remains that the manufacture and sale is intentionally not denied by the answer.*

LOMBARD DID MAKE PROVISION FOR ROYALTIES.

It is claimed that it was Lombard's fault the license was not protected. This claim is based upon the testimony of Lombard that when the corporation delivered notes or cash to the defendants nothing was said about how it should be applied. These deliveries were made in October, 1922, and prior thereto. It was not necessary for anything to be said. There was an understanding with Hine that the defendants would take long time notes in payment of royalties, and they received such notes and applied them to royalties. See Hine's testimony (R. 190):

*“As I put it once before, we would take the long-term notes as payment on the royalties * * **
(R. 194.)

Q. *You did make some division of certain notes that you had?*

A. Yes, sir.

Q. What were those notes?

A. I cannot tell you.

Q. And you made a division of them on account of royalties, did you not?

A. *Yes, because we had that discussion with Mr. Lombard previous to that time.”*

carrying it out *Lombard had taken care of the royalties* and there was nothing more to be said when delivering the notes to defendants. Furthermore, Lombard could not protect the corporation after his ouster on November 1, 1922. After that he could do nothing toward paying the royalties, if they were not already paid. The defendants could have done something but failed to do so because they planned to cancel the license. Furthermore any dereliction of Lombard could not excuse the defendants violation of the trust imposed upon them as directors of the corporation. Any fault of his could not excuse their flagrant breach of trust or their illegal cancellation of the license. The corporation was entitled to a reasonable notice of forfeiture and a reasonable opportunity to comply with its agreement. No act of Lombard's could excuse the defendants' failure to give the corporation such notice or opportunity and no act of Lombard's could make the cancellation of the license, without such notice and opportunity, valid.

BILL OF COMPLAINT SHOULD NOT BE DISMISSED.

Assuming that the manufacture and sale of the patented device was not admitted by the pleadings and was not conceded at the trial and that the case was not tried on that theory and that there was no evidence of infringement in spite of the two agreements with Neal and Ward, the sale of evaporators thereunder by them and the payment of royalties by them to Rees and Hine for the manufacture and sale of

these evaporators, counsel then argues that this court should enter a decree dismissing this bill. He contends that it is the inexorable rule of this court in a case of this character that it cannot be sent back to the trial court for further evidence on the question of infringement but must be forthwith summarily dismissed by this court. Before referring to the cases cited by counsel which he claims are in support of this contention but which in fact are not in point at all we desire to call this court's attention to the general rules on the subject.

The rule is that the appellate court will not remand a case to the lower court for further evidence *if justice does not demand it or if it is clear that all the evidence available on the question at issue was introduced*. But where justice does demand it or where it is obvious that the proof on a particular proposition is manifestly defective or inadequate for one reason or another and that further proof is available then and in that event the court will remand the case back for a further trial *on that one issue*. This is the general rule and it is applicable in the federal court both in law and in equity.

See:

4 *Corpus Juris*, p. 1193:

“The granting of a new trial on reversal is largely, although not entirely, a matter of discretion with the appellate court. * * * In the exercise of a sound judicial discretion an appellate court will on reversal order a new trial whenever it appears that the ends of justice will best be served by such a course.”

In the case of *Wiggins Ferry Co. v. Ohio Railroad Co.*, 12 Supreme Ct. Rep. 188, 195, the complainant's complaint and proof was defective. The court, besides holding that it was within the discretion of the appellate court to permit an amendment furthermore said:

“But for reasons above stated, and under the peculiar and exceptional circumstances of this case, we think the decree of the court below should be reversed, but without costs, and the case remanded for such further proceedings as may be consonant with justice and in conformity to this opinion.”

See also, the case of *Dillingham v. Allen*, 205 Federal 146, where it is said, p. 147:

“However, if it is clear that the timber was converted, and *there is evidence in the record tending to show that the plaintiff was damaged as found by the master, though not technically proving market value.* In this contingency equity would require that the parties be afforded an opportunity of supplying the omission, and to that end the decree is reversed and the case is remanded to the District Court, with instructions to recommit to the master the matter of damages, permitting all parties to introduce proof to show the market value of the timber at the time it was taken, and thereafter take such other proceedings as may be necessary to do full equity between the parties.” (Italics ours.)

See, 4 *Corpus Juris.*, p. 1199, Section 3239, where it is said:

“It (an appellate court), will not generally undertake to render or order final judgment, on reversal, where the facts in issue are not fully developed or definitely settled, but will in such case order a new trial. The rule is applicable where the evidence is obscure, indefinite, uncer-

tain, or otherwise unsatisfactory; and it is especially applicable where, by reason of erroneous rulings of the lower court, either party has been prevented from fully developing the merits of his case."

See also, *City of St. Louis v. Western Union Tel. Co.*, 13 Sup. Ct. Rep. 485, see p. 490. There the court said:

"It is true that in cases tried by the court, where all the facts are specifically found or agreed to, it is within the power of this court, in reversing, to direct the judgment which shall be entered upon such findings. *At the same time, if for any reasons justice seems to require it, the court may simply reverse, and direct a new trial.* Indeed, this has been done, under special circumstances, in cases where there were no findings of facts or agreed statement, or where that which was presented was *obviously defective*. *Graham v. Bayne*, 18 How. 60; *Flanders v. Tweed*, 9 Wall. 425." (Italics ours.)

See also:

Exchange National Bank v. New York City Bank, 5 Sup. Ct. Rep. 141.

The cases cited by counsel do not militate against this rule. In fact they have no application to the case at bar. For instance, the case of *Price v. Kelly*, 154 U. S. 669, quoted by him was not a reversal but was an affirmation of a judgment. The decree in that case was in favor of the defendants. The upper court held that there was absolutely no evidence of infringement and therefore the decree should be affirmed. The same situation applies to the case of *National Casket Co. v. Stoltz*, 135 Fed. 535. There the court held that there was no evidence of infringement and

to remand the case to permit the amendment of the pleadings, the bringing in of another party and further proof to hold such other party. The same thing may be said of *Panzel v. Battle Island Paper Co.*, 138 Fed. 49. The remarks from the opinion in that case quoted by counsel applied to that part of the decree which was affirmed. The court refused to allow the appellant the right after the decree was affirmed to go back in the lower court and try again.

There is no analogy between these cases and the one at bar. Of course an upper court in confirming a judgment will not, except where unusual circumstances demand it, send the case back at the instance of the *appellant* so that the appellant can have another chance in the lower court. Of course, such a course would lead to an endless protraction of all litigation but the rule is different in the case of a reversal of a judgment. There the policy of the court is much more liberal. Then, as the authorities cited show if the reasons seem to justify it or if the fact in issue is not fully developed or definitely settled at the former trial for any reason or if the proof on the fact in issue was obviously defective the court in the exercise of its discretion will not only reverse the case but will send it back for trial on this particular issue.

In the last analysis the question of whether or not a final judgment should be entered on appeal by the upper court is one for the discretion of that court governed by the particular circumstances of the case under its consideration. It is clear that in the event

that it should be decided that the manufacture and sale by the defendants was in issue in this case, was not conceded at the trial and was not shown by the evidence a proper exercise of discretion by this court would require it, not to dismiss the case, *but to send the case back to the lower court for determination of this one issue.* If this issue had been raised by the pleadings or by the statement of counsel in court we could have proved it beyond the peradventure of a doubt. Every one of the 50 evaporators that were sold in the year 1923 were exact replicas of the patented device. The defendants knew this and therefore raised no issue about it. Their pleadings and whole attitude in court tended to lead us and the judge to believe that there was no issue made of this point. It is obvious therefore that the proof of this question was not fully developed because of the attitude of the defendants themselves. It is clear that under these circumstances it would be a harsh and unjust result to dismiss this bill when it is apparent that further and more adequate evidence may be produced. It is quite apparent from the record that there is available proof on this point. It is quite obvious that neither the court nor the plaintiffs went thoroughly into this issue. It is clear that further proof could be adduced as to the character of these devices sold by Neal and Ward in 1923 upon which they paid a royalty under a license describing this very patented device by its patent number. It is plain that such proof could easily have been supplied if it had been necessary and if defendants' counsel had stated that manufacture and sale was an issue in the case. Would it be justice then, when the acts of defendants' counsel lead

to the claimed defect in process, to dismiss the case? Would it be consonant with the policy of any appellate court which is to dispose of cases on their merits? The reply is clearly no. On the contrary the proper course to follow, if this court considers a reversal necessary on the ground that the manufacture and sale is not admitted by the pleadings, was not conceded at the trial and was not shown by the evidence, is to send the cause back to the lower court for trial on that one particular issue. We venture to say that in such an event the case would never go to trial. The defendants in 1923 never made any attempt to disguise the fact that they were manufacturing and selling this patented device. They did it openly, admitted it and claimed it was no infringement of any of the corporation's rights because the corporation's license had been cancelled and they would never stand trial on that issue.

Where the error in the trial relates only to a certain issue which is in no way dependent for its proper trial on certain other issues already satisfactorily tried, the appellate court in the exercise of a sound discretion will remand the case to the lower court for trial solely on that issue and will restrict the trial to that issue. This is the general rule on the subject.

See, 4 *Corpus Juris*, p. 1194, where it is said:

“It is a general rule, either under statutory authority or in the exercise of a sound judicial discretion, that, where the error in the trial relates only to a certain issue which is in no way dependent for its proper trial on certain other issues already satisfactorily tried and a partial new trial will not work injustice to any of the parties concerned, the cause may be remanded,

on reversal, for the trial of the issue erroneously tried, and for that alone.”

See also:

Robinson v. Hayes, 186 Fed. 295;

Farrar v. Wheeler, 145 Fed. 483.

Accordingly should this court deem it necessary to require further proof on the manufacture and sale of these patented devices it should send the case back to be tried on this issue alone. We make this suggestion without intending to imply in the slightest way that there is any reason for reversal in this case. We believe that the discussion in this and in our other brief have established beyond the peradventure of a doubt that the manufacture and sale of the patented device was admitted by the pleadings, was conceded at the trial and was shown by the evidence and that the record clearly establishes that the defendants, until after their defeat in the lower court, never intended to claim that they were not manufacturing and selling this patented device, but on the contrary agreed to do so, did so and assumed the right to do so on the theory that the corporation, for which this action was brought, had lost its license.

We respectfully submit that the judgment of the lower court be affirmed.

Dated, San Francisco,

June 13, 1927.

Respectfully submitted,

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